

To: Mr Mark Waterfield
cc: Mr Iain Hacking

From: Daan Delen

Date: 9 February 1994

TRIP NOTES - COLOMBIA

Enclosed please find the detailed strategy document produced as a result of recent trip to Colombia on 19-21 January.

VISIT OBJECTIVES

1. To review the performance of all BAT Group brands and prepare a recommendation on which brands should receive priority in the unified portfolio. ✓
2. To review the mix of each specific brand and recommend strategies to maximise their potential in Colombia. ✓

KEY PORTFOLIO ISSUES In summary the key issues facing BAT in Colombia identified as a result of my visit were:

1. BAT has no brands which sell at price parity to MARLBORO. ✓
2. Four brands (KENT, KOOL, LSF and HOLLYWOOD) received communications support in 1994. Resources need to be concentrated. ✓
3. BELMONT and HOLLYWOOD sell at a similar price and have a similar image. The long term viability of two brands with a similar positioning in BAT's portfolio must be questioned. ✓
4. The launch of MUSTANG Extra Suave poses a significant competitive threat to BELMONT in the medium to long term. ✓

KEY RECOMMENDATIONS In summary the key recommendations for each brand are as follows:

- ✓ LUCKY STRIKE: BAT's long term strategic priority. Withdraw immediately and relaunch in Q1'95 at price parity with the new mix currently under development. ✓
- KENT: Withdraw support and test the "Pure Taste" concept at current and full revenue price levels. PREMIUM ✓
- KOOL: Continue communications support in the short term using the present materials and test the campaign being developed by TISA. volume price ✓
- BELMONT: Key drive brand. Look for rapid and proactive ways to resolve the trademark issue so that the brand can be given communications support. ✓
- ✓ HOLLYWOOD: Explore methods of differentiating its positioning from BELMONT. Test the new International campaign and adjust the price position if necessary. ✓
- CAPRI / PREMIUM / MINISTER: Manage to maximise revenue and volume without communications support. ✓

I trust the attached report with its more detailed analysis and recommendations is of value when determining strategies to maximise BAT's commercial performance in this opportunity market.

Kind regards,

Daan Delen

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SECRET

MANAGING THE BAT GROUP BRAND PORTFOLIO IN COLOMBIA

This document analyses the BAT brand portfolio in Colombia and recommends strategies to maximise their potential.

BACKGROUND / KEY ISSUES:

- BAT Co will take over the management of the all BAT Group brands in Colombia on 1 April 1994.
- The import segment (DP and DNP) has shown significant growth from 33.9% of the total market in 1991 to an estimated 37.1% in 1994 (appendix 1). BAT's total volume has grown very rapidly from 1560mn in 1988 to 4,015mn in 1993.

Shipment Volume (Mns)		1989	1990	1991	1992	1993
B&W	KOOL		97	109	158	200 /
	KENT	18	80	68	109	109 /
	LUCKY STRIKE				29	14 /
	CAPRI		4	1	7	6 /
BAT Co	BELMONT	1321	1790	1793	2546	3305 /
	PREMIUM			30	90	109 /
Souza Cruz	HOLLYWOOD	221	179	198	218	205 /
	MINISTER			73	103	67 /
TOTAL		1560	2150	2292	3260	4015 /

Shipment Shares (%)		1989	1990	1991	1992	1993
B&W	KOOL		0.3	0.4	0.6	0.7 /
	KENT	0.1	0.3	0.2	0.4	0.4
	LUCKY STRIKE				0.1	-
	CAPRI					
BAT Co	BELMONT	4.9	6.4	6.3	9.1	11.9
	PREMIUM			0.2	0.3	0.4
Souza Cruz	HOLLYWOOD	0.8	0.6	0.7	0.8	0.7
	MINISTER			0.3	0.4	0.2
TOTAL		5.8	7.7	8.0	11.6	14.4

- The volume and share budgets for all brands appear realistic given the historical performance and proposed activities for the brand (appendix 2). The budget for BELMONT appears conservative given the brands historical performance while the large increase in sales of MINISTER comes as a result of the brand's price reduction from US\$ 7.90 to \$6.52 / mille in January 1994 (appendix 3).
- The majority of BAT sales are DNP. Small quantities of HOLLYWOOD, LSF, KENT and KOOL are currently being imported and supported with advertising. The ownership of the BELMONT trademark in Colombia is under dispute. Obtaining the rights to this trademark so as to be able to overtly market this product is the key issue facing BAT in Colombia.
- Because the majority of sales are DNP, overall profitability of the market is good. The BAT Co brands generated a PBIT of £7.6mn in 1993, B&W brands generated £0.6mn while Souza Cruz broke even.
- The strength of the BAT portfolio lies in the medium and low price categories. None of BAT's brands compete at price parity to Marlboro in the full revenue segment (appendix 3). BAT offers the distributors in Colombia a significantly higher margin than Marlboro. This incentivates the trade but it also indicates that consumer demand and the brands' value is much lower than competitive brands. Based upon this measure KOOL and BELMONT are the brands with the strongest consumer demand (pull rather than push).

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- Significant product quality problems have been and continue to be reported by the trade (principally cigarette spotting). In January 1994, spotting problems were detected for LSF. Indications from the trade were that HOLLYWOOD had similar problems in the past but that this had now been rectified. Slow rotation appears to be the principal cause.
- The American Tobacco Company is still shipping in significant quantities of Lucky Strike Plain into Colombia. This is perceived to be different to the B&W version and specifically requested by consumers ("Cinco Letras" meaning "Five Letters" ie. "LS / MFT")
- According to GCS data corroborated with in-market observation, the current positioning of each brand in Colombia is as follows:

LUCKY STRIKE: The brand appears to have a fairly good image (niche) and profile (young and masculine). It is seen as being of lower quality than Marlboro and the other USIBs. The brand has a relatively large concentration of smokers among university students. Offtake has been slow and is hampered by a poor historical image (LSF plain cigarettes were used to smoke cannabis). The brand sells at price index 86 to Marlboro. The brand has historically received both ATL and BTL support using the "Biker" campaign.

KENT: The brand image and profile is feminine and older. It is perceived as being a high quality, lighter cigarette. The current price position is below Marlboro (index 93).

KOOL: The brand dominates the small Menthol segment in Colombia. It sells to both men and women with a mid to high SE profile. The image of the brand is very good despite the fact that historically mentholated cigarettes have attracted negative rumours (male impotence). The brand sells at price index 93 vs Marlboro. There is heavy brand switching between MARLBORO and KOOL indicating that the brand has a high potential to attract MARLBORO smokers.

BELMONT: The brand sells largely on its mild/smooth product proposition. It is smoked by both males and females of middle to low SE classes. It currently sells at price index 43 versus MARLBORO. The brand is very strong in the North of the country and weaker in Bogota and the South. BELMONT has never received any form of communications support. The BELMONT mild/smooth proposition has been copied by MUSTANG Extra Suave with some success. The pack colours are similar and the brand is receiving significant communications support. It sells well in Bogota and the South where BELMONT (and all DNP products) are weak (appendix 3).

HOLLYWOOD: The brand sells on a VFM platform as a full-flavour cigarette of American origin. It sells to both males and females of middle to low SE classes. The brand sells at a similar RSP to BELMONT which is price index 43 versus MARLBORO.

MINISTER: This brand sells at the floor price in the market. This is opportunist volume in a price sensitive market as no loyalty or brand value is or can be created at this price level.

CAPRI and PREMIUM: Both these brands sell in and dominate their respective niches. The slims niche is small and stagnant while the aromatic segment is increasing rapidly. PREMIUM sells off the perceived added value of its aroma to low SE classes. It receives no support although the USP in effect advertises itself.

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RECOMMENDATIONS LUCKY STRIKE should be BAT's number one long-term full-revenue priority in Colombia. It should be re-launched in 1995 at price parity to Marlboro with the new communications package and withdrawn in the interim. It is recommended that KOOL be designated the priority USIB in 1994.

BELMONT should be viewed as BAT(Colombia)'s and the Andean region's priority drive brand in the low/mid price segment. It has a very strong position in the market and a lot of potential for growth. The competitive threat from MUSTANG Extra Suave needs to be countered as soon as possible. The positioning of BELMONT and HOLLYWOOD (similar price position and image cues) will need to be distanced to avoid head on competition and develop a single coherent brand portfolio.

HOLLYWOOD should be designated as BAT's VFM brand in Colombia. The brand should be given tactical (POS, sampling, trade incentives, etc) support in the short term. The new International campaign created by Souza Cruz should be tested and the level of switching between HOLLYWOOD and BELMONT should be closely monitored. Should this analysis indicate that there is a significant level of interaction between the brands, the possibility of reducing the price of HOLLYWOOD should be investigated (to = \$7.00/mille).

In 1994 the recommended expenditure split would be (KOOL - 20%, BELMONT - 60% and HOLLYWOOD - 20%).

The specific recommendations for each brand are as follows:

LUCKY STRIKE:

- LSF is BAT Industries' No 1 priority International Brand and should remain the priority brand in the long term. Its current price position (index 86 vs Marlboro) appeals to consumers of a lower SE class than Marlboro. Its weak image attributes mean that it cannot sustain price parity. The continued presence of the brand on the market undermines BAT's ability to re-launch the brand effectively in the future. It is therefore recommended that the brand be withdrawn from Colombia immediately (1994 volume 11 mn). A programme to remove all POP and support materials should be implemented.
- The relaunch of LSF should be considered in 1995. To relaunch the brand effectively a completely new brand package is required to convince the target consumer that the 'new' LUCKY STRIKE is a completely different proposition to that currently marketed. At present development work on a new campaign and improved packaging and product is underway. Once the new package is available it should be tested prior to the relaunch.
- Pre-launch Brand Support - Given the opportunities afforded by Schwantz's win, support of the TLSS International sponsorship should be considered prior to the re-launch. A campaign to build brand awareness using Team LUCKY STRIKE Suzuki creative materials may be appropriate. The possibility of placing TLSS materials on TV in co-operation with local Suzuki distributors during prime time should be investigated.

Action:

- BAT(Colombia) to implement plan to retrieve all POP and communications support materials.
- BAT(Colombia) to plan TOT with new packaging, product and campaign in Q4 - 1994.
- BAT(Colombia) to investigate the possibility of placing TLSS materials on TV in conjunction with the Suzuki distributor.

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KOOL:

- The current efforts to rejuvenate the brand image should be continued. The "Musica Fresca KOOL" programme which is placed on TV during prime time has gained significant awareness for the brand
- The need and potential for a new ATL campaign (A/V and print) which integrates the freshness USP with imagery should be investigated in Q2-1994. The creative being developed by TISA(Panama) should be pre-tested and if appropriate a joint production may be considered.

Action: - BAT(Colombia) to consider and prepare a recommendation on the need for new ATL materials by Q2-1994.
- BAT(Colombia) to pre-test the copy proposed by TISA.

KENT

- The possibility of dropping the delivery of the KENT parent to 12/1.2mg should be investigated with the Brand Owners. This would further strengthen the brand's Light positioning and image among consumers.
- A brand/price trade-off study to predict the effect of placing KENT at full-revenue pricing should be commissioned. The current price positioning is not in-line with the international strategy.
- Once the "Pure Taste" campaign has been completed (Q2-1994), it is recommended that BAT(Colombia) test the entire package to gauge its potential. All current support should be stopped in the interim.
- Once the Superlights variant has been developed and launched in the Asia-Pacific region it may be considered as a line extension in 1995 or 1996.

Action: - USIBG to propose a reduction in the deliveries to B&W by end Feb 1994.
- BAT(Colombia) to immediately withdraw communications support in 1994.
- USIBG to despatch "Pure Taste" campaign to BAT(Colombia) for testing by end Q2-1994.
- USIBG to prepare a research proposal to conduct the brand/price trade-off study by 30.2.94.

BELMONT:

- The trademark ownership issue needs to be addressed quickly and pro-actively. The competitive threat posed by MUSTANG Extra Suave increases with time (appendix 3). An attempt to legally import and advertise BELMONT should be considered.
- Upon resolution of the trademark issue significant support should be afforded to the brand. The objective would be to firmly establish ownership of the Extra Suave segment and increase sales in the Bogota and Southern regions. The current communications materials from Venezuela should be tested to measure their effectiveness in Colombia by end April 1994.

Action: - BAT(Colombia) to consider and propose a more pro-active strategy on the trademark ownership issue by end March 1994.
- BAT(Colombia) to test the current BELMONT campaign from Venezuela by end April 1994.

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HOLLYWOOD:

- This brand should be positioned as BAT's VFM brand in Colombia. HOLLYWOOD and BELMONT currently sell at a similar price position with similar imagery. The main point of difference between the two brands currently is the product positioning (FF vs Mild). It is therefore recommended that the level of interaction between BELMONT and HOLLYWOOD be monitored and minimised. The new International campaign created by Souza Cruz should be tested and the level of switching between the brands accurately measured (1994 GCS sample boost). Should this analysis indicate that there is a significant level of interaction between the brands the possibility of reducing the price of HOLLYWOOD should be investigated (to \pm \$7.00/mille).
- The brand should be given tactical support. This should consist of POS, sampling and trade incentives. Airing of the International sponsorship A/V materials should be considered in-line with the International guidelines.

Action: - BAT(Colombia) to test the new International campaign in Q2-1994.
- BAT(Colombia) to review brand switching between HOLLYWOOD and BELMONT and prepare a recommendation on the ideal price position by end Q3-1994.

CAPRI

- A cost-benefit analysis of keeping the brand on the market should be performed. Dependant upon the results the brand should be withdrawn.

Action: - BAT(Colombia) to propose a plan for rationalisation of the brand by end April 1994. USIBG to obtain endorsement from B&W by end May 1994.

PREMIUM and MINISTER

- These brands should be managed to maximise revenue and volume. No communications support should be given. The proposed packaging modernisation for MINISTER should be implemented.

Action: - BAT(Colombia) to solicit revised pack design and implement changeover as soon as feasible.

GENERAL: In addition to the above brand specific items the following general corporate recommendations should be considered.

Low priced USIB / BELMONT contingency: A significant trend towards USIBs has developed in Colombia. Many international competitors (principally JTI and RJR) are shipping in low priced International brands. In addition should BAT lose the right to market BELMONT in Colombia a alternative brand needs to be marketed at this price position. The BAT Group should develop contingency plans to meet these competitive threats. It is recommended that the Viceroy and/or Pall Mall (FF and Lights) be prepared for the purpose using the mix (and product?) developed by Souza Cruz in Brazil.

Action: - BAT(Colombia) to prepare contingency plans by end 1994.

Product Quality: A system of continual product quality monitoring should be implemented. In line with other export markets, BAT(Colombia) should implement PQRS monitoring. Given the limited infrastructure in Colombia, the service provided by BAT Co in Southampton should be utilised.

Action: - BAT(Colombia) to solicit details from Dr Taj Hirji and implement as soon as

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feasible

American Tobacco Company The continued presence of LSF Plain produced by ATCo should be investigated. Given the new International trademark agreement with ATCo no product should be entering Colombia.

Action: - BAT(Colombia) and the RBU to investigate source of origin and follow-up with ATCo. The information should also be sent to the BAT Co Legal Department.

State Express 555: During the month of January significant quantities of SE 555 were encountered in Bogota and Cartagena. It was selling at a significant discount to Marlboro (Index 65). The presence of this product effectively undermines IBM plans to create a Blended SE555 and market it at price parity to Marlboro.

Action: - LA RBU to trace the source of this product to ensure that no further quantities are sold.

Agency Alignment: The international agency of record for LSF and KENT is GREY. The business should therefore be transferred as soon as GREY demonstrates its ability to manage the business effectively. Contacto/BSB is the incumbent. ✓ ✓ ✓

Action: - BAT(Colombia) to contact GREY(Colombia) and assess their ability to handle the business.

D. Delen
9.2.94

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Appendix 1

IMPORT vs LOCAL SEGMENT VOLUME AND SHARE DEVELOPMENT COLOMBIA

Volume (mns)		1989	1990	1991	1992	1993	1994 Est
Import Segment (DP and DNP)							
Total BAT Co		1,560	2,150	2,292	3,260	4,015	4,564
All others				7,358	6,303	5,765	5,836
Total Import Segment				9,650	9,563	9,780	10,400
Local Segment							
MUSTANG Extra Suave				-	1,020	1,700	1,750
All others				18,850	17,417	16,320	15,850
Total Local Segment				18,850	18,437	18,020	17,600
Total Market Colombia (1)				28,500	28,000	27,800	28,000

Shares (%)		1989	1990	1991	1992	1993	1994 Est
Import Segment (DP and DNP)							
Total BAT Co		5.8	7.7	8.0	11.6	14.4	16.3
All others				25.8	22.5	20.7	20.8
Total Import Segment				33.9	34.2	35.2	37.1
Local Segment							
MUSTANG Extra Suave				-	3.6	6.1	6.3
All others				66.1	62.2	58.7	56.6
Total Local Segment				66.1	65.8	64.8	62.9
Total Market Colombia				100.0	100.0	100.0	100.0

(1) Total market estimate supplied by B&W(Columbia)

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Appendix 2

1994 VOLUME and SHARE OBJECTIVES COLOMBIA

Shipments Volume (Mts)		1991	1992	1993	Budget 1994
B&W	KOOL	109	158	200	238
	KENT	68	109	109	115
	CAPRI	1	7	6	7
BAT Co	LUCKY STRIKE		29	14	11
	BELMONT	1793	2546	3305	3503
	PREMIUM	50	90	109	130
Souza Cruz	HOLLYWOOD	198	218	205	300
	MINISTER	73	103	67	260
TOTAL		2292	3260	4015	4564

Shipments Shares (%)		1991	1992	1993	Budget 1994
B&W	KOOL	0.4	0.6	0.7	0.9
	KENT	0.2	0.4	0.4	0.4
	CAPRI	-	-	-	-
BAT Co	LUCKY STRIKE		0.1	-	-
	BELMONT	6.3	9.1	11.9	12.5
	PREMIUM	0.2	0.3	0.4	0.5
Souza Cruz	HOLLYWOOD	0.7	0.8	0.7	1.1
	MINISTER	0.3	0.4	0.2	0.9
TOTAL		8.0	11.6	14.4	16.3

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Appendix 3

BAT BRAND PORTFOLIO RELATIVE PRICING vs MARLBORO COLOMBIA

H&W		Aruba - in Price US\$/mille	Index vs Marlboro	Ave Consumer Price Peso/pack	Index vs Marlboro
	KOOL	21.10	84	650	93
	KENT	20.50	82	650	93
	LUCKY STRIKE	15.80	63	600	86
BAT Co	BELMONT	8.75	35	300	43
	PREMIUM	8.80	35	n/a	
Souza Cruz	HOLLYWOOD	8.90	36	400	57
	MINISTER	7.90	32	n/a	

- NB:
- (1) Average consumer prices quoted are those recorded in the 1993 GCS
 - (2) Market visits in the month of January 1994 indicate that HOLLYWOOD and BELMONT were selling at an identical RSP.
 - (3) The price of MINISTER was reduced to US\$ 6.52 in January 1994

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NDM STRUCTURE TIMETABLE

		<u>Responsibility</u>	<u>Deadline</u>
1.	<u>International Tobacco Overseas Ltd.</u>		
1.1	Begin process of registering capital, establishing Board of Directors, issuing Powers of Attorney, and convening a Board Meeting	PM/MA	14/8/94
1.2	Issue the necessary documentation to Baker & Mackenzie in Colombia to establish Colombian branch.	PM	14/8/94
1.3	Contact the 5 other NDM's to establish what information is required from the LK company in order to establish a branch.	PM	14/8/94
2.	<u>Branches</u>		
	Priority Ranking :- Colombia, Peru, Paraguay, Ecuador, Bolivia		
2.1	<u>Colombia</u>		
2.1.1	Establish minimum required capital.	PM	14/8/94
2.1.2	Send necessary documentation for opening a branch to Baker Mackenzie.	PM	14/8/94
2.1.3	Identify/propose additional legal representative, and supply details to Baker Mackenzie.	CF	14/8/94
2.1.4	B&W and Souza Cruz closure of operations to take place end 1994. Baker Mackenzie to advise on procedures.	PM	31/12/94
2.1.5	Target for branch to be operational by 14th November, based on advice from Baker Mackenzie.	-	14/11/94
2.1.6	Contact PW to request they act as BAT's fiscal supervisor (auditor) as required under Colombian law.	JD	14/8/94
2.1.7	Direct distribution project to be formed which should provide action plan which allows BAT to have a direct distribution system (partial or full).	NP	31/12/94
2.2	<u>Other Branches</u>		
2.2.1	Follow exactly the same procedures as above, with a target for all branches with the exception of Uruguay to be operational by the end of 1994.	ALL	31/12/94

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CAPRI and PREMIUM: Both these brands sell in and dominate their respective niches. The slims niche is small and stagnant while the aromatic segment is increasing rapidly. PREMIUM sells off the perceived added value of its aroma to low SE classes. It receives no support although the USP in effect advertises itself.

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RECOMMENDATIONS LUCKY STRIKE should be BAT's number one long-term full-revenue priority in Colombia. It should be re-launched in 1995 at price parity to Marlboro with the new communications package and withdrawn in the interim. It is recommended that KOOL be designated the priority USIB in 1994.

BELMONT should be viewed as BAT(Colombia)'s and the Andean region's priority drive brand in the low/mid price segment. It has a very strong position in the market and a lot of potential for growth. The competitive threat from MUSTANG Extra Suave needs to be countered as soon as possible. The positioning of BELMONT and HOLLYWOOD (similar price position and image cues) will need to be distanced to avoid head on competition and develop a single coherent brand portfolio.

HOLLYWOOD should be designated as BAT's VFM brand in Colombia. The brand should be given tactical (POS, sampling, trade incentives, etc) support in the short term. The new International campaign created by Souza Cruz should be tested and the level of switching between HOLLYWOOD and BELMONT should be closely monitored. Should this analysis indicate that there is a significant level of interaction between the brands, the possibility of reducing the price of HOLLYWOOD should be investigated (to = \$7.00/mille).

In 1994 the recommended expenditure split would be (KOOL - 20%, BELMONT - 60% and HOLLYWOOD - 20%).

The specific recommendations for each brand are as follows:

LUCKY STRIKE:

- LSF is BAT Industries' No. 1 priority International Brand and should remain the priority brand in the long term. Its current price position (index 86 vs Marlboro) appeals to consumers of a lower SE class than Marlboro. Its weak image attributes mean that it cannot sustain price parity. The continued presence of the brand on the market undermines BAT's ability to re-launch the brand effectively in the future. It is therefore recommended that the brand be withdrawn from Colombia immediately (1994 volume 11 mn). A programme to remove all POP and support materials should be implemented.
- The relaunch of LSF should be considered in 1995. To relaunch the brand effectively a completely new brand package is required to convince the target consumer that the 'new' LUCKY STRIKE is a completely different proposition to that currently marketed. At present development work on a new campaign and improved packaging and product is underway. Once the new package is available it should be tested prior to the relaunch.
- Pre-launch Brand Support - Given the opportunities afforded by Schwantz's win, support of the TLSS International sponsorship should be considered prior to the re-launch. A campaign to build brand awareness using Team LUCKY STRIKE Suzuki creative materials may be appropriate. The possibility of placing TLSS materials on TV in co-operation with local Suzuki distributors during prime time should be investigated.

Action:

- BAT(Colombia) to implement plan to retrieve all POP and communications support materials.
- BAT(Colombia) to plan TOT with new packaging, product and campaign in Q4 - 1994.
- BAT(Colombia) to investigate the possibility of placing TLSS materials on TV in conjunction with the Suzuki distributor.

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KOOL:

- The current efforts to rejuvenate the brand image should be continued. The "Musica Fresca KOOL" programme which is placed on TV during prime time has gained significant awareness for the brand
- The need and potential for a new ATL campaign (A/V and print) which integrates the freshness USP with imagery should be investigated in Q2-1994. The creative being developed by TISA(Panama) should be pre-tested and if appropriate a joint production may be considered.

Action: - BAT(Colombia) to consider and prepare a recommendation on the need for new ATL materials by Q2-1994.
- BAT(Colombia) to pre-test the copy proposed by TISA.

KENT

- The possibility of dropping the delivery of the KENT parent to 12/1.2mg should be investigated with the Brand Owners. This would further strengthen the brand's Light positioning and image among consumers.
- A brand/price trade-off study to predict the effect of placing KENT at full-revenue pricing should be commissioned. The current price positioning is not in-line with the international strategy.
- Once the "Pure Taste" campaign has been completed (Q2-1994), it is recommended that BAT(Colombia) test the entire package to gauge its potential. All current support should be stopped in the interim.
- Once the Superlights variant has been developed and launched in the Asia-Pacific region it may be considered as a line extension in 1995 or 1996.

Action: - USIBG to propose a reduction in the deliveries to B&W by end Feb 1994.
- BAT(Colombia) to immediately withdraw communications support in 1994.
- USIBG to despatch "Pure Taste" campaign to BAT(Colombia) for testing by end Q2-1994.
- USIBG to prepare a research proposal to conduct the brand/price trade-off study by 30.2.94.

BELMONT:

- The trademark ownership issue needs to be addressed quickly and pro-actively. The competitive threat posed by MUSTANG Extra Suave increases with time (appendix 3). An attempt to legally import and advertise BELMONT should be considered.
- Upon resolution of the trademark issue significant support should be afforded to the brand. The objective would be to firmly establish ownership of the Extra Suave segment and increase sales in the Bogota and Southern regions. The current communications materials from Venezuela should be tested to measure their effectiveness in Colombia by end April 1994.

Action: - BAT(Colombia) to consider and propose a more pro-active strategy on the trademark ownership issue by end March 1994.
- BAT(Colombia) to test the current BELMONT campaign from Venezuela by end April 1994.

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HOLLYWOOD:

- This brand should be positioned as BAT's VFM brand in Colombia. HOLLYWOOD and BELMONT currently sell at a similar price position with similar imagery. The main point of difference between the two brands currently is the product positioning (FF vs Mild). It is therefore recommended that the level of interaction between BELMONT and HOLLYWOOD be monitored and minimised. The new International campaign created by Souza Cruz should be tested and the level of switching between the brands accurately measured (1994 GCS sample boost). Should this analysis indicate that there is a significant level of interaction between the brands the possibility of reducing the price of HOLLYWOOD should be investigated (to \pm \$7.00/mille).
- The brand should be given tactical support. This should consist of POS, sampling and trade incentives. Airing of the International sponsorship A/V materials should be considered in-line with the International guidelines.

Action: - BAT(Colombia) to test the new International campaign in Q2-1994.
- BAT(Colombia) to review brand switching between HOLLYWOOD and BELMONT and prepare a recommendation on the ideal price position by end Q3-1994.

CAPRI

- A cost-benefit analysis of keeping the brand on the market should be performed. Dependant upon the results the brand should be withdrawn.

Action: - BAT(Colombia) to propose a plan for rationalisation of the brand by end April 1994. USIBG to obtain endorsement from B&W by end May 1994.

PREMIUM and MINISTER

- These brands should be managed to maximise revenue and volume. No communications support should be given. The proposed packaging modernisation for MINISTER should be implemented.

Action: - BAT(Colombia) to solicit revised pack design and implement changeover as soon as feasible.

GENERAL: In addition to the above brand specific items the following general corporate recommendations should be considered.

Low priced USIB / BELMONT contingency: A significant trend towards USIBs has developed in Colombia. Many international competitors (principally JTI and RJR) are shipping in low priced International brands. In addition should BAT lose the right to market BELMONT in Colombia a alternative brand needs to be marketed at this price position. The BAT Group should develop contingency plans to meet these competitive threats. It is recommended that the Viceroy and/or Pall Mall (FF and Lights) be prepared for the purpose using the mix (and product?) developed by Souza Cruz in Brazil.

Action: - BAT(Colombia) to prepare contingency plans by end 1994.

Product Quality: A system of continual product quality monitoring should be implemented. In line with other export markets, BAT(Colombia) should implement PQRS monitoring. Given the limited infrastructure in Colombia, the service provided by BAT Co in Southampton should be utilised.

Action: - BAT(Colombia) to solicit details from Dr Taj Hirji and implement as soon as

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feasible

American Tobacco Company The continued presence of LSF Plain produced by ATCo should be investigated. Given the new International trademark agreement with ATCo no product should be entering Colombia.

Action: - BAT(Colombia) and the RBU to investigate source of origin and follow-up with ATCo. The information should also be sent to the BAT Co Legal Department.

State Express 555: During the month of January significant quantities of SE 555 were encountered in Bogota and Cartagena. It was selling at a significant discount to Marlboro (Index 65). The presence of this product effectively undermines IBM plans to create a Blended SE555 and market it at price parity to Marlboro.

Action: - LA RBU to trace the source of this product to ensure that no further quantities are sold.

Agency Alignment: The international agency of record for LSF and KENT is GREY. The business should therefore be transferred as soon as GREY demonstrates its ability to manage the business effectively. Contacto/BSB is the incumbent. ✓ ✓ ✓

Action: - BAT(Colombia) to contact GREY(Colombia) and assess their ability to handle the business.

D. Delen
9.2.94

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Appendix 1

IMPORT vs LOCAL SEGMENT VOLUME AND SHARE DEVELOPMENT COLOMBIA

Volume (mms)		1989	1990	1991	1992	1993	1994 Est
Import Segment (DP and DNP)							
Total BAT Co		1,560	2,150	2,292	3,260	4,015	4,564
All others				7,358	6,303	5,765	5,836
Total Import Segment				9,650	9,563	9,780	10,400
Local Segment							
MUSTANG Extra Suave					1,020	1,700	1,750
All others				18,850	17,417	16,320	15,850
Total Local Segment				18,850	18,437	18,020	17,600
Total Market Colombia (1)				28,500	28,000	27,800	28,000

Shares (%)		1989	1990	1991	1992	1993	1994 Est
Import Segment (DP and DNP)							
Total BAT Co		5.8	7.7	8.0	11.6	14.4	16.3
All others				25.8	22.5	20.7	20.8
Total Import Segment				33.9	34.2	35.2	37.1
Local Segment							
MUSTANG Extra Suave					3.6	6.1	6.3
All others				66.1	62.2	58.7	56.6
Total Local Segment				66.1	65.8	64.8	62.9
Total Market Colombia				100.0	100.0	100.0	100.0

(1) Total market estimate supplied by B&W(Columbia)

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Appendix 2

1994 VOLUME and SHARE OBJECTIVES COLOMBIA

Shipments Volume (Mns)		1991	1992	1993	Budget 1994
B&W	KOOL	109	158	200	238
	KENT	68	109	109	115
	CAPRI	1	7	6	7
BAT Co	LUCKY STRIKE		29	14	11
	BELMONT	1793	2546	3305	3503
	PREMIUM	50	90	109	130
Souza Cruz	HOLLYWOOD	198	218	205	300
	MINISTER	73	103	67	260
TOTAL		2292	3260	4015	4564

Shipments Shares (%)		1991	1992	1993	Budget 1994
B&W	KOOL	0.4	0.6	0.7	0.9
	KENT	0.2	0.4	0.4	0.4
	CAPRI	-	-	-	-
BAT Co	LUCKY STRIKE		0.1	-	-
	BELMONT	6.3	9.1	11.9	12.5
	PREMIUM	0.2	0.3	0.4	0.5
Souza Cruz	HOLLYWOOD	0.7	0.8	0.7	1.1
	MINISTER	0.3	0.4	0.2	0.9
TOTAL		8.0	11.6	14.4	16.3

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Appendix 3

BAT BRAND PORTFOLIO
RELATIVE PRICING vs MARLBORO
COLOMBIA

B&W		Aruba - in Price US\$/mille	Index vs Marlboro	Ave Consumer Price Peso/pack	Index vs Marlboro
	KOOL	21.10	84	650	93
	KENT	20.50	82	650	93
	LUCKY STRIKE	15.80	63	600	86
BAT Co	BELMONT	8.75	35	300	43
	PREMIUM	8.80	35	n/a	
Souza Cruz	HOLLYWOOD	8.90	36	400	57
	MINISTER	7.90	32	n/a	

- NIB: (1) Average consumer prices quoted are those recorded in the 1993 GCS
(2) Market visits in the month of January 1994 indicate that HOLLYWOOD and BELMONT were selling at an identical RSP.
(3) The price of MINISTER was reduced to US\$ 6.52 in January 1994

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NDM STRUCTURE TIMETABLE

		<u>Responsibility</u>	<u>Deadline</u>
1.	<u>International Tobacco Overseas Ltd.</u>		
1.1	Begin process of registering capital, establishing Board of Directors, issuing Powers of Attorney, and convening a Board Meeting	PM/MA	14/8/94
1.2	Issue the necessary documentation to Baker & Mackenzie in Colombia to establish Colombian branch.	PM	14/8/94
1.3	Contact the 5 other NDM's to establish what information is required from the LK company in order to establish a branch.	PM	14/8/94
2.	<u>Branches</u>		
	Priority Ranking :- Colombia, Peru, Paraguay, Ecuador, Bolivia		
2.1	<u>Colombia</u>		
2.1.1	Establish minimum required capital.	PM	14/8/94
2.1.2	Send necessary documentation for opening a branch to Baker Mackenzie.	PM	14/8/94
2.1.3	Identify/propose additional legal representative, and supply details to Baker Mackenzie.	CF	14/8/94
2.1.4	B&W and Souza Cruz closure of operations to take place end 1994. Baker Mackenzie to advise on procedures.	PM	31/12/94
2.1.5	Target for branch to be operational by 14th November, based on advice from Baker Mackenzie.	-	14/11/94
2.1.6	Contact PW to request they act as BAT's fiscal supervisor (auditor) as required under Colombian law.	JD	14/8/94
2.1.7	Direct distribution project to be formed which should provide action plan which allows BAT to have a direct distribution system (partial or full).	NP	31/12/94
2.2	<u>Other Branches</u>		
2.2.1	Follow exactly the same procedures as above, with a target for all branches with the exception of Uruguay to be operational by the end of 1994.	ALL	31/12/94

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